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AICPA *Washington Report*

April 1, 1974

Volume II, Issue 24

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COST OF LIVING COUNCIL

The end of economic controls appears to have been signalled by the Senate Banking Committee this past week when the committee voted 11-4 to defeat a one-year extension bill, sponsored by Democratic Committee members. Dr. John Dunlop, Chairman of the Council has reasserted that he expects some form of an extension bill to be approved despite this most recent action. House Banking Committee Chairman Wright Patman (D-Tex.) still has not scheduled a similar bill before his committee.

Additional Phase IV Health Care Regulations in the form of amendments and additions are contained in the 3/27/74 Fed. Reg. at p. 11376. Copies of the proposal may also be obtained by calling the Council at 202/254-8545.

An extension of time for acute care hospitals to file notices of their election to be governed under Phase II/III regulations or under Phase IV regulations has been issued (3/28/74 Fed. Reg., p. 11425). The new deadline is now 4/15/74.

FEDERAL HOME LOAN BANK BOARD

An alternative to the conversion bill sponsored by Senate Banking Committee Chairman John Sparkman (D-Ala.) has been introduced by Sen. William Proxmire (D-Wisc.). His remarks on introducing the bill appear in the 3/22/74 Cong. Record at p. S4228. Copies of the Sparkman bill (S. 3132) and Mr. Proxmire's (S. 3224) can be obtained from the Senate Document Room, 202/225-4321.

Hearings on the measure have been scheduled for April 8-11.

FEDERAL TRADE COMMISSION

The line of business (LB) reporting form has been approved by the Commission, and it has been forwarded to the Comptroller General of the United States for his review. Under the program, the nation's 500 largest manufacturing firms will be required to submit financial data for individual industry categories rather than company-wide totals as is presently the case. The Commission did adopt a staff recommendation to phase in the program in two stages in order to allow companies sufficient time to institute whatever new procedures might be necessary to comply with this request for information. For the 1973 reporting year (ending 6/30/74), a limited amount of data must be furnished. The Comptroller General has 45 days in which to complete his review and to seek advice on the procedures, if desired. If no advice is received from him within 45 days, the FTC may immediately put the program into effect.

HEALTH, EDUCATION AND WELFARE, DEPARTMENT OF

A major education bill (HR 69) has been approved by the House. The vote was 380-26, and represented the culmination of work by the education

subcommittee covering more than seven months of deliberation. The bill consolidates many of the Federal subsidy programs; however, it does not embody the "special revenue sharing" formula advocated by the Administration.

The Senate had earlier approved its version of the bill (S. 1559), and now a conference to resolve differences will be ordered.

INTERSTATE COMMERCE COMMISSION

The Commission's 1973 Annual Report to Congress has been issued (93rd Congress, 2nd Session, H.Doc. 93-262). It covers the operations of the Commission during the year, and includes a section on carrier reporting requirements, and the new uniform system of accounts for motor carriers of property, in addition to other accounting matters. Copies of the report may be obtained from the GPO at \$1.40 per copy (S/N 2600-00940).

An amendment to the uniform system of accounts affecting revenue and expense accounts under Part 1207 of the regulations governing Class I and II motor carriers of property has been issued (3/28/74 Fed. Reg., p. 11424). The change affects the section on record-keeping requirements.

Legislation affecting the Commission's duties has been introduced in the Senate at the request of the Administration by Sen. Magnuson (D-Wash.), Chairman of the Commerce Committee. The bill (S. 3237) calls for a joint study with the Department of Transportation to provide for uniform cost accounting and uniform revenue accounting methods for rail carriers. The bill is reprinted in the 3/26/74 Cong. Record at p. S4359. Hearings on the bill have not as yet been scheduled.

JUSTICE, DEPARTMENT OF

A GAO report entitled "Difficulties of Assessing Results of Law Enforcement Assistance Administration Projects to Reduce Crime" has been issued (Rept. B-171019 of 3/19/74). The report cites the failure of State programs to provide the necessary types of evaluation procedures to assess the results of the four types of LEAA projects reviewed by GAO. It was recommended that the Attorney General direct that LEAA, in cooperation with the States, designate several projects from each type of LEAA-funded program as demonstration projects and determine information that should be gathered and the type of evaluations that should be done in order to establish, for similar projects, guidelines relating to general goals; uniform information; standard reporting systems; and other standardized criteria to assess program effectiveness. Copies of the report can be obtained from the GAO reports department, 202/386-3784.

OFFICE OF MANAGEMENT AND BUDGET

Budget reform legislation will soon be considered by House-Senate conferees who will attempt to reconcile differences in the two-approved versions

of the legislation calling for a major overhaul in the Congressional budgetary process. The House version contains a stiffer timetable requirement for the Executive branch to submit its budget proposals, and it would go further in eliminating back-door spending. Both bills call for the creation of a joint congressional budget staff.

SECURITIES AND EXCHANGE COMMISSION

Commissioner A. A. Sommer, Jr. discussed "Differential Disclosure" for the Second Emanuel Saxe Distinguished Accounting Lecture at Baruch College on 3/19/74. He discussed the effects of the latest SEC release (33-5427) relating to certain proposed amendments to Regulation S-X, commenting: "I would suggest that the new direction pointed by the Commission is a step in the demythologization, if I may call it that, of the disclosure process . . .".

TREASURY, DEPARTMENT OF

Tentative drafting decisions on the energy taxation bill have been reached, and the Ways and Means Committee agreed to a five-year phase-out for most of the oil eligible for the domestic oil depletion allowance, to end effective 1/1/74 the foreign depletion allowance, to limit for oil companies the use of the foreign tax credit to a 52.8% rate, and to tax the windfall profits of the oil companies, but return this tax if the companies invest it in energy development.

"Limited" tax revision legislation will be passed by the House, Chairman Mills predicts, but he added he does not now favor a general tax cut. His committee will begin considering tax revision within the next few weeks. Tightening up on capital gains, estate and gift taxes and on the minimum tax on preferential income were areas he felt the Committee would act on.

IRS audit activity will be stepped up. IRS will have 2500 more agents in 1974, and add another 2500 in 1975. It generally means that the odds against being audited on 1973 returns has been reduced.

"The Collection Process" is a new pamphlet available from IRS offices that explains procedures that IRS follows and outlines rights of taxpayers.

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WASHINGTON LIAISON ACTIVITIES

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FEDERAL TAXATION

Pension Reform Legislation. Comments and recommendations have been prepared for submission to the Joint House Senate Conference on pension reform. The Conference will be attempting to reconcile the differences in HR 4200, as passed by the Senate, and HR 2, as passed by the House. It is expected that comments will be submitted during the week of April 1.

Tax Division's Spring Meeting. Preparations are underway for the Tax Division's Spring meeting, which will be held near San Diego, May 4-9, 1974. Invitations have been extended to several officials of the Treasury Department, Internal Revenue Service and the Congressional tax writing committees. Among the items that will be considered are many which have been submitted by state society tax committees in response to an advance notification of the Division meeting.

Meeting planned with Lawrence Gibbs, Assistant Commissioner, Technical, IRS. Arrangements have been finalized for a planned meeting with Lawrence Gibbs, Assistant Commissioner, Technical, IRS on April 17, 1974. A formal agenda of discussion items has been submitted to Mr. Gibbs to which he is expected to reply. Mr. Gibbs has also accepted an invitation to participate in the Division's Spring meeting.

Small Business -- IRS Liaison Meeting. The Tax Division, along with representatives of other professional organizations, met with IRS officials to discuss ways of helping small businesses meet their obligations to IRS. One item of discussion was IRS publication 334 - Tax Guide for Small Business. Portions of the 1973 edition were previously reviewed by the Tax Division and the IRS indicated that 23 Division suggestions were adopted and included in the 1974 edition. The meeting was held under the sponsorship of the Senate Select Committee on Small Business.

IRS Hearings on Proposed Regulations. The Tax Division presented testimony to the IRS on proposed regulations under Sections 861, 863, and 905 regarding the allocation and apportionment of deductions. The Division is opposed to the proposed regulations and previously submitted written comments to the IRS in November 1973.

Financial Counseling Fees Paid by Employer (Rev. Rul. 73-13). A memorandum concerning financial counseling fees paid by an employer was sent to Commissioner Alexander. Several points were discussed, including the withholding implications, retroactivity, and the timing of the recognition of income to the employee. The memorandum was submitted in response to a request by the Commissioner.

Comments on Proposed Regulations. Comments were submitted to the IRS on proposed regulations under Sections 6013(e) and 6653(b) concerning relief of liability in certain cases for a spouse who signed a return which significantly understated gross income.

SECURITIES AND EXCHANGE COMMISSION

The Subcommittee on SEC Matters has agreed that in view of the success of the Conference on SEC Matters held January 8-9 that a similar conference should be held in 1975.

The American Law Institute is currently preparing a proposed revision and a codification of Federal Securities Laws.

At a recent meeting the Subcommittee was informed that:

- A. Leases to which foreign laws and customs are applicable are best interpreted in light of conditions prevailing in the country involved. While translation of foreign lease information at current rates is preferred, translation at historic rates would also be acceptable, pending a pronouncement by the FASB.

With respect to a lease in a shopping center, in determining whether such lease is a financing lease, the expected return on the particular lease involved should be considered, rather than the expected over-all rate of return for the shopping center.

If renewal options were not considered in the original reporting of a lease, subsequent exercise of the option should be classified as a financing or operating lease based on facts existing at the date the renewal is agreed to.

Bare land leases under some conditions may qualify as financing leases.

- B. For compensating balances, the disclosure requirement as to means of determining a weighted average will generally be fulfilled by use of the words "daily", "weekly", "monthly", etc. It may be adequate to state "multiple bases". The purpose of this requirement is to enable the reader to evaluate the degree of precision of the weighting.

If compensating balances relating to long-term borrowings are appropriately considered as current assets under GAAP, ASR No. 148 would not require non-current treatment.

- C. Combining state and Federal income tax rates is not permitted in disclosure of tax differences in accordance with ASR No. 149.
- D. After a stock life insurance company has converted to the GAAP basis it will not be practicable to later redetermine such data for prior interim periods. Therefore, after the change-over, it will not be practicable to present comparative interim period

figures for periods prior to changeover. The reason for omission should be stated in a note.

However, it is expected that after the changeover, it will be practicable to restate on a GAAP basis data for all prior annual periods, to the extent the basic data is still available. For registration statements involving periods where such basic data is not available and the only information available is that prepared on a statutory basis, a vertical line should separate GAAP from statutory material.

If under State laws statutory basis information must be included in addition to GAAP, the statutory basis information should be as inconspicuous as possible.

GAAP basis is encouraged for 1973 reports, and statutory basis will not be acceptable for filings subsequent to June 30.

- E. In a statement of changes in financial position of a public utility, the equity portion of "allowance for funds used during construction" must be deducted from income in arriving at working capital from operations. The entire amount of the "allowance" may be so deducted.
- F. For real estate trusts the SEC is requiring disclosure of interest to the date of foreclosure to be included in balance sheets, and of the components of cost applicable to the foreclosed properties.
- G. Mr. Burton has stated that 1974 is the year of the auditor. By this he meant to imply that the auditor would serve a more important function in reporting in the future than at present. Among the matters involved are interim reports, and material in current reports that at present are not covered under the auditor's opinion.

Mr. Sommer has commented in speeches on the problem of two levels of disclosure. A release may be issued on this topic at some future date.

- H. It is expected that a release resulting from the reconsideration of ASR No. 146 will be issued shortly.
- I. It has been reported that some registrants had been denied the right to incorporate annual reports in Forms S-8 because such annual reports had violated Accounting Series Release No. 142. However annual reports not presenting additional data called for by ASR No. 148 and 149 will be acceptable for incorporation in Forms S-8.